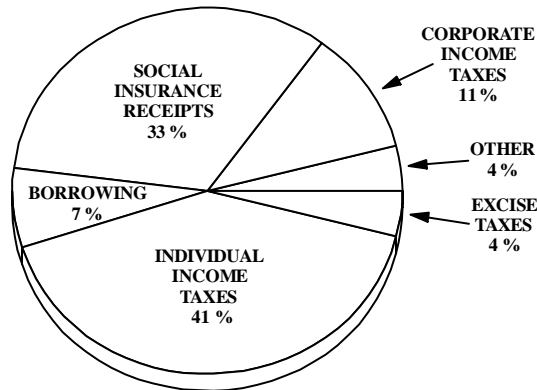


I. THE BUDGET MESSAGE OF THE PRESIDENT

THE FEDERAL GOVERNMENT DOLLAR FISCAL YEAR 1998 ESTIMATES

WHERE IT COMES FROM...



WHERE IT GOES...

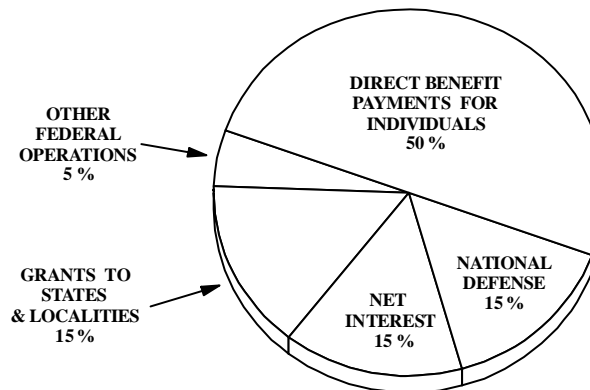


Table I-1. RECEIPTS, OUTLAYS, AND SURPLUS OR DEFICIT
(In billions of dollars)

	1996 Actual	Estimate					
		1997	1998	1999	2000	2001	2002
Receipts	1,453	1,505	1,567	1,643	1,727	1,808	1,897
Outlays	1,560	1,631	1,687	1,761	1,814	1,844	1,880
Surplus/Deficit (-):							
Unified	-107	-126	-121	-117	-87	-36	17
On-budget	-174	-199	-197	-205	-183	-139	-93
Off-budget	67	74	76	87	96	103	110

THE BUDGET MESSAGE OF THE PRESIDENT

To the Congress of the United States:

The 1998 Budget, which I am transmitting to you with this message, builds upon our successful economic program of the last four years by balancing the budget while investing in the future.

My budget reaches balance in 2002 the right way—cutting unnecessary and lower-priority spending while protecting our values. It strengthens Medicare and Medicaid, improves last year's welfare reform law, and provides tax relief to help Americans raise their children, send them to college, and save for the future. It invests in education and training, the environment, science and technology, and law enforcement to raise living standards and the quality of life for average Americans.

Over the last four years, my Administration and Congress have already done much of the hard work of reaching balance in 2002. We have reversed the trend of higher deficits that we inherited, and we have gone almost two-thirds of the way to reaching balance. Now, I want to work with Congress to achieve the final increment of deficit cutting and bring the budget into balance for the first time since 1969.

Building a Bridge to the 21st Century

For four years, my Administration has worked to prepare America for the future, to create a Government and a set of policies that will help give Americans the tools they need to compete in an increasingly competitive, global economy.

We have worked to create *opportunity* for all Americans, to demand *responsibility* from all Americans, and to strengthen the American *community*. We have worked to bring the Nation together because, as Americans have shown time and again over the years, together we can overcome whatever hurdles stand before us.

Working with Congress and the American people, we have put America on the right

path. Today, the United States is safer, stronger, and more prosperous. Our budget deficit is much smaller, our Government much leaner, and our policies much wiser.

The economic plan that we put in place in 1993 has exceeded all expectations. Already, it has helped to reduce the deficit by 63 percent—from the record \$290 billion of 1992 to just \$107 billion in 1996—and it has spurred a record of strong growth, low interest rates, low inflation, millions of new jobs, and record exports for four years.

While cutting the deficit, we also have cut the Federal work force by over 250,000 positions, bringing it to its smallest size in 30 years and, as a share of the civilian work force, its smallest since the 1930s. We have eliminated Federal regulations that we don't need and improved the ones we do. And we have done all this while improving the service that Federal agencies are providing to the American people.

We have cut wisely. We have, in fact, cut enough in unnecessary and lower-priority spending to find the resources to invest in the future. That's why we were able to cut taxes for 15 million working families, to make college more affordable for 10 million students, to put tens of thousands of young people to work through national service, to invest more in basic and biomedical research, and to help reduce crime by putting more police on the street.

My plan to reach balance in 2002 provides the resources to continue these important investments. We must not only provide tax relief for average Americans, but also increase access to education and training; expand health insurance to the unemployed and children who lack it; better protect the environment; enhance our investments in biomedical and other research; beef up our law enforcement efforts; and provide the needed funds for a thriving global policy and a strong defense.

Putting the Building Blocks in Place

When my Administration took office in 1993, we inherited an economy that had barely grown over the previous four years while creating few jobs. The budget deficit had hit record levels, and experts in and out of Government expected it to go higher. Savings and investment were down, interest rates were up, and incomes remained stagnant, making it harder for families to pay their bills.

We put in place a comprehensive set of policies that are bearing fruit. By cutting the deficit from \$290 billion to \$107 billion last year, my economic program (and the strong economy it helped create) has brought the deficit to its lowest level since 1981. As a share of Gross Domestic Product (GDP), we have our smallest deficit since 1974 and the smallest of any major industrialized nation.

Other parts of my economic policy also are helping to create jobs and raise living standards. With regard to trade, for instance, my Administration not only completed the Uruguay Round of the General Agreement on Tariffs and Trade and the North American Free Trade Agreement, but also more than 200 separate trade agreements, helping to raise exports to record levels. By opening overseas markets to American goods—by encouraging free and fair trade—we are creating high-wage jobs at home.

Taken together, our budget and trade policies have helped to create over 11 million new jobs in the last four years. After two decades of troubling stagnation, incomes have begun to rise again while inequality shrinks. Also, partly due to a strong economy (and partly to our policies), poverty, welfare, and crime are down all across America.

With strong growth, low interest rates, low inflation, millions more jobs, record exports, more savings and investment, and higher incomes, the Nation is enjoying what such experts as Alan Greenspan, the chairman of the Federal Reserve, have described as the healthiest economy in a generation.

Now, our challenge is to complete the job that we began in 1993—to bring the

budget into balance for the first time since 1969 while continuing to invest in the American people. My budget does that.

Improving Performance in a Balanced Budget World

Led by the Vice President's National Performance Review, we are truly creating a Government that "works better and costs less."

We have cut the Federal work force by over 250,000 positions, eliminated over 200 programs and projects, closed nearly 2,000 obsolete field offices, cut red tape, and eliminated thousands of pages of regulations while dramatically simplifying thousands more. We also are providing better service for Americans—at the Social Security Administration, the Department of Veterans Affairs, and other agencies.

Our efforts to balance the budget will continue to put a premium on spending wisely. I am determined that we will provide the highest-quality service to Americans for the lowest price. And I will demand that agencies continue to search for better and better ways to achieve results for the American people.

As we move ahead, we plan to follow a series of strategies that build upon our successes to date. We will, for instance, restructure agencies to make them more flexible and decentralized. We will work to ensure that Federal employees and their managers work together to achieve common goals. We will expand competition to ensure that agencies perform their functions as efficiently as possible.

Government cannot solve all of our problems, but it surely must help us solve many of them. We need an effective Government to serve as a partner with States, localities, business and labor, communities, schools, and families. Only when we can show the American people that Government can, in fact, work better for them can we restore their confidence in it. And I am determined to do just that.

Creating Opportunity, Demanding Responsibility, and Strengthening Community

I worked with the last Congress to ensure that as many as 25 million Americans no longer have to fear that they will lose their access to health insurance if they lose their jobs or change jobs; that people no longer will be denied coverage because they have preexisting medical conditions; that insurance companies will sell coverage to small employer groups and to individuals who lose group coverage; and that self-employed people will find it easier and cheaper to get health insurance. Now, I want to strengthen both Medicare and Medicaid to ensure that they continue to serve the tens of millions of Americans who rely on them, to expand health care coverage to help the growing numbers of American children and families who lack insurance, and to promote public health. My budget invests more in biomedical research, in programs to combat infectious diseases, in the Ryan White AIDS program that provides potentially life-extending drug therapies to many people with AIDS, and in community health centers and Indian Health Service facilities that serve critically underserved populations.

We have to ensure that every American has the skills and education needed to win in the new economy, and we can do that only if every American is ready for a lifetime of continuous learning. My budget expands Head Start, increases our investments in Federal elementary and secondary education programs, launches a new effort to jump-start needed school renovation and construction, and provides funds for America Reads to ensure that all children can read well and independently by the end of third grade. To expand higher education and training to all Americans, I propose HOPE scholarship tax credits of up to \$1,500 for two years, tax deductions of up to \$10,000, the largest increase in Pell Grant scholarships in two decades, lower student loan fees and interest rates, and the G.I. Bill for America's Workers so they can choose where to get the best job training available.

We do not have to choose between a stronger economy and a cleaner environment.

Over the last four years, we have produced both. Now, we want to go further. In this budget, I am proposing the funds to speed up toxic waste clean-ups, to redevelop abandoned and contaminated sites known as "brownfields," to improve the facilities at our national parks, to advance our salmon recovery efforts, to invest in energy efficiency and renewable energy, to further our environmental efforts overseas, and to expand our work with States, localities, private groups, and others to restore such sensitive ecosystems as the South Florida Everglades and California's Bay-Delta area between San Francisco and Sacramento.

We must maintain our leadership in research, the results of which have so greatly improved our health and well-being. Federal research, in concert with the private sector, creates new knowledge, trains our workers, generates new jobs and industries, solves many of our health care challenges, strengthens our ability to address environmental issues, enables us to teach our children better, and ensures that we can maintain a strong, capable national defense. I am proposing to increase our investments in basic research in health sciences at the National Institutes of Health, in basic research and education at the National Science Foundation, in research at other agencies that depend on science and technology, and in cooperative ventures with industry, such as through the successful Advanced Technology Program and Manufacturing Extension Partnerships.

I want to build on our efforts to fight crime, curb the scourge of illegal drugs, and secure the Nation's borders. Crime is falling all across America. And, under the Brady Bill that I fought so hard to achieve, we have prevented over 100,000 felons, fugitives, and stalkers from obtaining guns. Now, I want to make further progress and, in particular, target juvenile crime and violence. My budget continues our progress toward putting 100,000 more police on the street. It renews our efforts to fight drug abuse, particularly by focusing on youth prevention programs to reverse the recent trends of softening attitudes toward drugs and more drug use by young Americans. It also strengthens our efforts to control illegal immigration by stopping those who want to enter illegally,

quickly removing those who slipped by, and making it harder for illegal immigrants to get jobs.

Because some American communities have grown disconnected from the opportunity and prosperity that most of us enjoy, I want to help communities attract private investment to spur their revitalization. Because permanent solutions must come from the community level, my budget proposes to create opportunities and offer incentives for individuals and businesses to participate directly in addressing local problems. I want to expand my national service program so that more Americans can volunteer and earn money for college. I want to expand Empowerment Zones and Enterprise Communities, making more and more communities eligible for the tax incentives and other support that can spur a return of business and jobs. I also want to expand the Community Development Financial Institutions Fund to enhance credit and other services to distressed areas. In addition, the Nation's capital, which suffers from a unique set of challenges, would benefit greatly from the groundbreaking proposal that I have previously outlined.

I am pleased that, today, 2.1 million fewer Americans are on welfare than the day I took office, both because of a strong economy and because I have helped States to test innovative ways to move people from welfare to work and protect children. I am also pleased that I could sign last year's welfare reform legislation, because I believe it will promote my basic goals of work, family, and responsibility. I have directed my Administration to work closely with States so that we can make welfare reform succeed. Last year's law, however, also included excessive budget cuts, mainly affecting nutrition programs, legal immigrants, and children, that had nothing to do with welfare reform. In signing the bill, I said that I would seek legislation to address those problems. My budget does that.

Over the last four years, we have provided tax relief to millions of working Americans and to small businesses. But I want to go further by helping middle-income Americans raise their children, send them to college, and save for the future. For those Americans,

my tax plan offers a \$500 per child tax credit for all children under 13, a \$1,500-a-year tax credit to help families send their children to college for two years, a \$10,000 tax deduction for tuition and fees for higher education and training, and expanded Individual Retirement Accounts to encourage saving and enable families to cope with unforeseen problems. I am also proposing to ensure that homeowners do not have to pay capital gains taxes on 99 percent of all home sales. My tax plan would promote the hiring of long-term welfare recipients in order to help move people from welfare to work, restore the tax credit that encourages business research and development, and expand tax credits for Empowerment Zones and Enterprise Communities. And it would help finance my tax relief by eliminating unwarranted tax loopholes and preferences.

On the international front, we must continue to project our leadership abroad while we advance our national goals. With the Cold War over, we have a great opportunity to expand democracy overseas, but we will have a much better chance to succeed if we fulfill our international commitments. In this budget, I am proposing that we pay our arrears to the United Nations and other international organizations, so that our leadership is not undermined at this crucial time. But I will also insist that these institutions control their budgets and enact the reforms that our Government and others have called for. In addition, we must continue our support for Russia and the New Independent States of the Soviet Union as they make the difficult transition to free markets and democracy, and we must be prepared to do whatever we can to advance the difficult, but vital, peace process in the Middle East. A strong, coherent foreign policy also will help us further our progress in opening markets abroad, and my budget proposes strong, continued support for the Federal efforts that help to expand exports.

Finally, our goals both at home and abroad must rest on the firm foundation of a strong national defense. It is a strong defense that safeguards our interests, prevents conflict, and secures the peace. We must ensure that our armed forces are highly ready and armed with the best equipment that tech-

nology can provide. They must be prepared and trained for the new threats to our security—from the proliferation of weapons of mass destruction, to ethnic and regional conflicts, to terrorism and drug trafficking that directly threaten our free and open society. My budget continues to sustain and modernize the world's strongest and most ready military force, a force capable of prevailing in two nearly simultaneous regional conflicts. It fully funds our commitment to maintain the highest levels of training and readiness, and to equip our uniformed men and women with the most advanced technologies in the world. We must never fall short when it comes to defense.

Conclusion

Our policies are working. By dramatically cutting the deficit and investing in the future,

we have helped to spur four years of strong economic growth, providing vast new opportunities for millions of Americans. Jobs, incomes, savings, investment, exports, and homeownership are all up. Crime, poverty, teen pregnancy, and inequality are all down. Clearly, we are moving in the right direction.

But our work is not done. For too long, the Federal Government has spent much more than it received, creating deficits that cast doubt on both our economic future and our ability to govern. In the last four years, we have made huge progress, cutting the deficit by nearly two-thirds. I urge Congress to help me finish the job and balance the budget by 2002—giving the American people the balanced budget they deserve.

WILLIAM J. CLINTON

February 6, 1997